

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Washtenaw Community Health Organization	County Washtenaw
Audit Date 9/30/05	Opinion Date 1/10/06	Date Accountant Report Submitted to State: 5/3/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

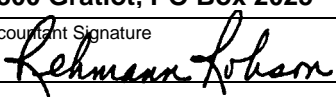
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Accountant Signature 		ZIP 48605	Date 5/3/06



**washtenaw community
health organization**

**Financial Statements
And
Supplementary Information**

For The Year Ended September 30, 2005



WASHTENAW COMMUNITY HEALTH ORGANIZATION

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WASHTENAW COMMUNITY HEALTH ORGANIZATION

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

January 10, 2006

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the **Washtenaw Community Health Organization** as of and for the year ended September 30, 2005, which collectively comprise the Organization's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Washtenaw Community Health Organization's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Washtenaw Community Health Organization as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2006, on our consideration of the Washtenaw Community Health Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Washtenaw Community Health Organization's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Management's Discussion and Analysis
Fiscal Year October 1, 2004 – September 30, 2005

The Washtenaw Community Health Organization (WCHO) provides integrated mental health, substance abuse, and physical health services for persons with severe and persistent mental illness, persons with developmental disabilities and persons with substance use disorders. The year ended September 30, 2005 completes WCHO's third year as a prepaid Health Plan for Medicaid covered services for this population in the Southeastern region of Michigan including the Counties of Lenawee, Livingston, Monroe and Washtenaw. Prior to October 1, 2002, only consumers in Washtenaw County were included in the WCHO realm of responsibility. This significant change has resulted in an increase in Medicaid funding from \$28,024,908 in the year ended September 30, 2002 to this year's funding level of \$75,644,450 for the Mental Health population and from \$553,549 to \$1,061,514 for the Substance Abuse population.

The information provided within this Management's Discussion and Analysis is supplemental to the basic financial statements. It is not intended to replace the basic financial statements, nor does it provide contrary financial data. The analysis section of this summary will identify major issues of importance for anyone reviewing these financial statements.

FINANCIAL OVERVIEW

The financial structure of the organization is based on fund accounting. Each fund represents the broad parameters within which financial decisions may be made. The WCHO currently has three major components within its financial structure: Mental Health, Substance Abuse, and an Internal Services Fund. Each of the major funding separations includes restrictions and mandates as to how funds may be utilized in providing medically necessary services for the identified populations. The Internal Service Fund (ISF) represents a reserve in the event of insufficient funds to cover necessary or mandated services, for consumers covered by Medicaid funding. Prior to October 1, 2003, the ISF was specific to Washtenaw only. Beginning October 1, 2003, the ISF of all four counties was combined to form a Regional ISF. Within each of our three major Funds, subsets of areas of responsibility are further delineated. This segregation of activities and objectives ensures and demonstrates compliance with financial requirements and regulatory restrictions and maintains a separation of funding streams.

The financial structure has also been designed to provide a financial presentation of the services provided by the organization. These services include: general outpatient services, inpatient hospitalization, licensed residential facilities, supported community living, substance abuse treatment and prevention, and special projects including state, local, and grant-supported activities. The vision of the WCHO is to provide integrated health care, including physical health, mental health, and substance abuse. Because this integration is an area of potential growth for the organization, separation of this funding is designed to focus on this goal and to show that growth over time. Currently, physical health services are included within the Mental Health Fund; however, to maintain proper management of distinct funds, it is separated in a sub-section. Therefore, the integrity of these funds is maintained. This structural separation of activities maintains all the funding restrictions of the budget.

Government-wide Financial Statements

The *Statement of Net Assets* presents the financial status of the organization's assets and liabilities. It presents the current financial status of the organization. During this third year of operation under the recently adopted GASB 34, the organization purchased four licensed residential homes. Long-term debt of \$350,000, in the form of a "Recoverable Grant" received from Washenaw County, was incurred in August 2004 in anticipation of acquiring the four homes. The balance of this loan at September 30, 2005 was \$300,113. The homes have been capitalized and depreciated accordingly, beginning in Fiscal Year 2004-2005.

The *Statement of Activities* presents the financial data that resulted in a change to the net assets. This report presents the revenue earned and the expenses incurred during the fiscal period beginning October 1, 2004 and ending September 30, 2005. Operations during this period resulted in an increase in net assets of \$1,435,867. This was the result of an excess of revenue over expenses incurred in operations of \$1,544,148 and a net reduction of \$(108,281) in the ISF resulting from a distribution. Major activities include mental health inpatient and outpatient services, support services, community inclusion activities, substance abuse prevention and treatment, and physical health services. Physical Health is a growth area for the organization to meet its vision of integrated health care for its identified populations.

Fund Financial Statements:

The *governmental funds financial statements* are intended to provide an overview of the organization's major areas of service. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenditure of each funding source.

Notes to the Financial Statements:

The Notes provide additional information that is essential to the full understanding of the financial data provided in the financial statements. These notes are an integral part of the financial statements and should be viewed in conjunction with the information included in the statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets:

Total Assets of the organization are \$23,081,489 at September 30, 2005. Total Liabilities are \$16,969,753 at September 30, 2005, of which \$3,799,885 represents unferred revenue—allowable carry-forward funds to be expensed in the following fiscal year. Total net assets (fund balance) are \$6,111,736 at September 30, 2005. Total net assets at September 30, 2004 were \$4,675,869.

Assets	<u>09/30/05</u>	<u>09/30/04</u>
Cash and cash equivalents	\$ 18,217,750	\$ 13,710,596
Receivables & prepayments	3,810,866	5,024,453
Other assets		23,535
Capital assets	<u>967,310</u>	<u>36,200</u>
Total Assets	<u>22,995,926</u>	<u>18,794,784</u>
Liabilities		
Accounts payable and accrued liabilities	12,784,192	8,004,224
Deferred revenue	3,799,885	5,768,476
Long-term debt		
Due within one year	47,378	46,102
Due in more than one year	<u>252,735</u>	<u>300,113</u>
Total Liabilities	<u>16,884,190</u>	<u>14,118,915</u>
Net Assets		
Invested in capital assets, net of related debt	667,197	310,015
Restricted for contract losses	1,366,280	1,474,560
Unrestricted	<u>4,078,259</u>	<u>2,891,293</u>
Total Net Assets	<u>\$ 6,111,736</u>	<u>\$ 4,675,868</u>

The significant amount of deferred revenue liability represents the amount of the allowable carry-forward of Medicaid and State General Funds. The capped percentage of unspent medicaid allowed to be carried forward to the next year is 7.5% of the total Medicaid received. This is comprised of the first 5% and then one half of the next 5%. For the four-county region, the combined Mental Health and Substance Abuse Medicaid carry-forward at 09/30/05 was \$2,084,022 (including \$125,308 Substance Abuse {SA}) and at 09/30/04 was \$4,004,938 (including \$74,798 SA). Any additional unspent medicaid is required to be returned to the Michigan Department of Community Health (MDCH) and is referred to as “lapse”. There was no lapse at 09/30/05. At 09/30/04 \$377,969 (including \$100,622 SA) of lapse was subsequently returned to MDCH.

In addition, at 09/30/05 there was \$103,221 and at 09/30/04 \$436,326 of State General Funds for Mental Health that was also carried forward. State General Funds are contracted directly with each county; therefore, this funding is not reported on a regional basis. There was no lapse of General Funds at 09/30/05. There was a General Funds lapse of \$67,672 as of 9/30/04.

Deferred Medicaid and General Fund revenue, i.e., “carryforward,” must be spent during the next fiscal year prior to that fiscal year’s current year funding. Decisions for allocating the Medicaid carry-forward among the four counties are made by the WCHO and are based on proposals from each affiliate county, as well as, current funding circumstances for that year.

Statement of Activities including Change in Net Assets:

The *Statement of Activities* lists the major areas and sub-areas of services provided by the WCHO: Mental Health, Substance Abuse and Physical Health.

Physical Health is a growth area for the organization. Currently, funding is from grants and contracts which focus on enrollment and access activities. During the 2004/2005 fiscal year, four integrated health clinics were opened, thereby enabling consumers to receive both their physical health care and mental health care at a single location. Other activities include the partnership with University of Michigan’s Department of Health to coordinate all health care of shared populations through its Medical Management program. With our development of a shared database, reports showing all services provided to a single consumer now provides management and care providers comprehensive information for improving quality of care and controlling costs.

WCHO’s largest revenue source is its contract with Michigan Department of Community Health. The contract includes both Medicaid and General Funds, with the largest revenue source being Medicaid funding through special waiver provisions granted by the Federal Centers for Medicare and Medicaid Services. Other revenue sources include, Federal Block Grants, local funding from Washtenaw County, the Washtenaw Health Plan, the City of Ann Arbor and grant funding from various grantors.

During the fiscal year ended 09/30/05 net assets of the organization increased by a combined total of \$1,435,867 resulting in total net assets of \$6,111,736.

Revenue	<u>09/30/05</u>	<u>09/30/04</u>
Program Revenue:		
Charges for services	\$ 2,049,110	\$ 1,062,300
Operating grants and contributions	9,314,174	7,939,400
General Revenue:		
Medicaid - MH & DD	78,018,515	71,294,460
Medicaid - Substance abuse	1,043,085	918,716
State General Funds	9,162,602	8,227,919
Risk reserve funds received from Affiliates		473,677
Unrestricted investment earnings	<u>654,060</u>	<u>298,907</u>
Total Revenue	<u>100,241,546</u>	<u>90,215,379</u>
Expenses		
Administration	5,506,377	3,361,802
Mental Health Services	86,790,597	79,951,726
Substance Abuse Services	5,908,387	4,420,460
Physical Health Services	<u>600,318</u>	<u>368,355</u>
Total expenses	<u>98,805,679</u>	<u>88,102,343</u>
Change in net assets	1,435,867	2,113,036
Net assets, beginning of year	<u>4,675,869</u>	<u>2,562,833</u>
Net assets, end of year	<u>\$ 6,111,736</u>	<u>\$ 4,675,869</u>

The total revenue figures shown here are the net revenue amounts for current year activities, less all deferred revenue. In accordance with the contract with Michigan Department of Community Health, the WCHO may carry forward up to 7.5% of the Medicaid and 5% of the General Funds. Actual carry forward was within this limit. For this fiscal year, the maximum allowable carry forward was \$5,752,947 for Medicaid and \$440,906 for General Funds. The actual carry forward amounts for the year ended 09/30/05 were \$2,084,022 for Medicaid (2.7%) and \$103,221 for General Funds (1.2%). For Substance Abuse, only Medicaid dollars may be carried forward. With the year beginning October 1, 2003 the carry forward of Substance Abuse and Mental Health Medicaid is no longer computed separately. All carry forward funds must be expensed in the following fiscal year prior to spending any current year funding. Carry forward funds at September 30, 2004 were as follows: Medicaid - \$4,004,938, General Funds - \$436,326. All were expensed during fiscal year ended September 30, 2005.

The total amount of the fund balance at September 30, 2005 is 4.8% of fiscal year 2005 expenditures for Mental Health and Substance Abuse services. Accounting Best Practice recommends a fund balance of two to three months of operating expenditures. While not yet at that level, it does provide some financial protection beyond the Medicaid Internal Service Fund.

Factors Impacting the Future:

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The WCHO Board reviews and approves a budget in September for the fiscal year beginning October 1. Development of the annual budget begins in June, four months prior to its implementation.

Funding levels from the state are often not determined until after the start of the fiscal year. Furthermore, funding is often subject to change during the course of the fiscal year. Such uncertainty increases the complexity of managing budgeted expenditures. In addition, Medicaid, the organization's largest funding source, fluctuates with the changing number of Medicaid Recipients, as well as, the state's criteria for Medicaid Eligibility.

Uncertain funding, as indicated above, results in impacts on the level of spending approved by management. With improvements in our own data collection system resulting from all affiliates using a single system, spending decisions will be favorably impacted to avoid lapses in funding. Management's ability to make informed decisions regarding service capacity has also improved as a result of the increased integrity of the data.

Since the inception of the WCHO in August 2000, there has not been a year in which expenses have exceeded revenues. However, restrictions attached to the various funding streams continually challenge management's efforts to maintain vital services and provide an integrated care system.

The greatest impact to the organization's future standing is its contract with the Michigan Department of Community Health. Funding levels from the state are greatly affected by the condition of the Michigan economy, potential Executive Order reductions issued by the Governor and the approval of waiver provisions by the Centers for Medicare and Medicaid Services. The State also rebases revenue rates periodically based on prior years' encounter data. This rebasing may result in reduced funding if spending is not maintained at or near the level of revenue received.

Medicaid funding is dependent on the number of persons that meet Medicaid criteria as well as the rates assigned by the State for the various population, gender, and age categories. Over the past few years, the number of Medicaid eligibles has fluctuated significantly. The average monthly number of Medicaid eligibles was 48,426 during fiscal year 2001/2002; 60,930 during fiscal year 2002/2003; 57,563 during fiscal year 2003/2004 and 53,888 during fiscal year 2004/2005. During fiscal year 2004/2005, the average monthly number of eligibles ranged from 52,374 to 54,312. A reduction in the Medicaid population, however, may not impact the number of persons eligible to receive our services. Therefore, the rate paid per Medicaid recipient to the WCHO is critical in maintaining our ability to provide medically necessary services.

As stated earlier, the ability to carry forward up to 7.5% of Medicaid and 5.0% State General Funds does allow management some ability to smooth out fluctuations in revenue and maintain medically necessary services for our identified populations.

One further restriction challenging our ability to manage medically necessary services is the inability to interchange funds among consumer groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers. Also, there is the further restriction against interchanging funds between the various Medicaid waivers.

A final challenge as a Region is the difficulty in reassigning General Fund dollars across the region as we can with Medicaid funds. Presently, only the State may approve any transfer of General Funds between Counties. Unless this changes, we run the risk of having a two-tiered benefit package, one for Medicaid consumers and one for Indigent consumers. This occurrence is one that our Board would prefer does not happen.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Washtenaw Community Health Organization, also doing business as The Partnership of Southeast Michigan. Questions concerning this information may be directed to Linda L. Brown, Finance Director, Washtenaw Community Health Organization, 555 Towner, P.O. Box 915, Ypsilanti, Michigan 48197-0915.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Statement of Net Assets
September 30, 2005**

	<u>Business-type Activities</u>
Assets	
Cash and cash equivalents	\$ 18,217,750
Receivables	3,784,303
Other assets	26,563
Capital assets not being depreciated	256,219
Capital assets being depreciated, net	<u>711,091</u>
 Total assets	 <u>22,995,926</u>
Liabilities	
Accounts payable and accrued liabilities	12,784,192
Unearned revenue	3,799,885
Long-term debt:	
Due within one year	47,378
Due in more than one year	<u>252,735</u>
 Total liabilities	 <u>16,884,190</u>
Net assets	
Invested in capital assets, net of related debt	667,197
Restricted for contract losses	1,366,280
Unrestricted	<u>4,078,259</u>
 Total net assets	 <u><u>\$ 6,111,736</u></u>

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Activities
For the Year Ended September 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue / Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities:				
Mental health services:				
Board administration	\$ 5,506,377	\$ 987,376	\$ 1,711,425	\$ (2,807,576)
Access and care management	1,506,832	-	1,500	(1,505,332)
Comprehensive support and services	65,201,488	938,704	957,745	(63,305,039)
Residential and supported living	13,153,010	-	-	(13,153,010)
Inpatient services	5,113,889	-	-	(5,113,889)
Grants and contracts	749,209	-	737,836	(11,373)
Special projects	1,066,169	1,539	655,925	(408,705)
Physical health services:				
Health plan enrollment	238,260	-	273,218	34,958
Health care screening	10,840	10,840	-	-
Grants and contracts	351,218	70,000	207,371	(73,847)
Substance abuse services:				
Board administration	359,842	7,770	240,141	(111,931)
Access	321,683	-	214,391	(107,292)
Prevention	1,224,749	12,131	1,212,618	-
Treatment	2,512,839	20,750	1,612,731	(879,358)
Local projects	1,489,274	-	1,489,273	(1)
Total business-type activities	<u>\$ 98,805,679</u>	<u>\$ 2,049,110</u>	<u>\$ 9,314,174</u>	<u>(87,442,395)</u>
General revenues:				
MDCH Contract:				
Medicaid				78,018,515
General fund				9,162,602
Substance abuse				1,043,085
Unrestricted investment earnings				<u>654,060</u>
Total general revenues				<u>88,878,262</u>
Change in net assets				1,435,867
Net assets, beginning of year				<u>4,675,869</u>
Net assets, end of year				<u>\$ 6,111,736</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

Statement of Net Assets

Proprietary Funds

September 30, 2005

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 15,260,841	\$ 1,442,490	\$ 16,703,331	\$ 1,514,419
Receivables:				
Due from the Michigan Department of Community Health	1,204,907	-	1,204,907	-
Due from other agencies and governments	1,553,936	10,539	1,564,475	-
Due from other funds	161,057	118,235	279,292	-
Prepays	26,563	-	26,563	-
Total current assets	18,207,304	1,571,264	19,778,568	1,514,419
Non-current assets:				
Operating advances to other agencies	999,150	15,771	1,014,921	-
Capital assets not being depreciated	256,219	-	256,219	-
Capital assets being depreciated, net	711,091	-	711,091	-
Total non-current assets	1,966,460	15,771	1,982,231	-
Total assets	20,173,764	1,587,035	21,760,799	1,514,419
Liabilities				
Current liabilities:				
Accounts payable	3,291,577	300,760	3,592,337	-
Accrued payroll	165,194	20,679	185,873	-
Due to the Michigan Department of Community Health	1,672,191	-	1,672,191	-
Due to other agencies and governments	7,220,979	112,812	7,333,791	-
Due to other funds	118,235	12,918	131,153	148,139
Unearned revenue	2,660,019	1,139,866	3,799,885	-
Current portion of long-term debt	47,378	-	47,378	-
Total current liabilities	15,175,573	1,587,035	16,762,608	148,139
Non-current liabilities:				
Long-term debt, net of current portion	252,735	-	252,735	-
Total liabilities	15,428,308	1,587,035	17,015,343	148,139
Net assets				
Invested in capital assets, net of related debt	667,197	-	667,197	-
Restricted for contract losses	-	-	-	1,366,280
Unrestricted	4,078,259	-	4,078,259	-
Total net assets	\$ 4,745,456	\$ -	\$ 4,745,456	\$ 1,366,280

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
**Reconciliation of Net Assets on the Statement of Net Assets
for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
September 30, 2005**

Net assets - total enterprise funds	\$ 4,745,456
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods. The assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in internal service funds	<u>1,366,280</u>
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Net assets of business-type activities	<u><u>\$ 6,111,736</u></u>
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The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2005

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Operating revenue				
Medicaid	\$ 78,018,515	\$ 1,043,085	\$ 79,061,600	\$ -
State general fund indigent	9,162,602	-	9,162,602	-
Earned revenues, grants and federal programs	2,447,612	4,379,941	6,827,553	-
Charges for services	940,243	19,901	960,144	-
Local revenue:				
Community appropriations	1,029,818	-	1,029,818	-
Physical health revenue	795,166	-	795,166	-
Other local revenue	1,339,940	410,663	1,750,603	-
Total operating revenue	93,733,896	5,853,590	99,587,486	-
Operating expenses				
Mental health services:				
Board administration	5,506,377	-	5,506,377	-
Access and care management	1,506,832	-	1,506,832	-
Comprehensive support and services	65,201,488	-	65,201,488	-
Residential and supported living	13,144,115	-	13,144,115	-
Inpatient services	5,113,889	-	5,113,889	-
Grants and contracts	749,209	-	749,209	-
Special projects	1,066,169	-	1,066,169	-
Physical health services:				
Health plan enrollment	238,260	-	238,260	-
Health care screening	10,840	-	10,840	-
Grants and contracts	351,218	-	351,218	-
Substance abuse services:				
Board administration	-	359,842	359,842	-
Access	-	321,683	321,683	-
Prevention	-	1,224,749	1,224,749	-
Treatment	-	2,512,839	2,512,839	-
Local projects	-	1,489,274	1,489,274	-
Total operating expenses	92,888,397	5,908,387	98,796,784	-
Operating income (loss)	845,499	(54,797)	790,702	-

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets (Concluded)
Proprietary Funds
For the Year Ended September 30, 2005

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Non-operating revenue (expense)				
Interest revenue	\$ 559,405	\$ 54,797	\$ 614,202	\$ 39,858
Interest expense	(8,895)	-	(8,895)	-
Total non-operating revenue	550,510	54,797	605,307	39,858
Net income before transfers	1,396,009	-	1,396,009	39,858
Transfers				
Transfers in	148,139	-	148,139	-
Transfers out	-	-	-	(148,139)
Net transfers in (out)	148,139	-	148,139	(148,139)
Change in net assets	1,544,148	-	1,544,148	(108,281)
Net assets, beginning of year	3,201,308	-	3,201,308	1,474,561
Net assets, end of year	\$ 4,745,456	\$ -	\$ 4,745,456	\$ 1,366,280

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
**Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Enterprise Funds
to the Statement of Activities**
For the Year Ended September 30, 2005

Change in net assets - total enterprise funds	\$ 1,544,148
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Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods. The net revenue (expense) of those funds are reported with business-type activities.

Add: interest revenue from internal service funds	39,858
Add: transfers to (from) internal service funds	<u>(148,139)</u>

Change in net assets of business-type activities	<u><u>\$ 1,435,867</u></u>
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The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Cash flows from operating activities				
Cash received from customers	\$ 94,060,355	\$ 6,326,433	\$ 100,386,788	\$ 437,786
Cash payments to suppliers for goods and services	(86,718,231)	(5,938,797)	(92,657,028)	-
Cash payments to employees for services	(2,912,674)	(379,294)	(3,291,968)	-
Cash received from interfund payments	-	-	-	567,718
Interfund payments	(551,318)	(16,400)	(567,718)	-
Net cash provided (used) by operating activities	3,878,132	(8,058)	3,870,074	1,005,504
Cash flows from capital and related financing activities				
Purchase of capital assets	(967,487)	-	(967,487)	-
Principal payments	(46,102)	-	(46,102)	-
Interest payments	(8,895)	-	(8,895)	-
Net cash provided (used) by capital and related financing activities	(1,022,484)	-	(1,022,484)	-
Cash flows from investing activities				
Interest received	559,405	54,797	614,202	39,858
Increase in cash and cash equivalents	3,563,192	46,739	3,609,931	897,223
Cash and cash equivalents, beginning of year	11,697,649	1,395,751	13,093,400	617,196
Cash and cash equivalents, end of year	\$ 15,260,841	\$ 1,442,490	\$ 16,703,331	\$ 1,514,419

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2005

	<u>Enterprise Funds</u>			<u>Internal</u>
	<u>Mental</u>	<u>Substance</u>		<u>Service</u>
	<u>Health</u>	<u>Abuse</u>	<u>Total</u>	<u>Funds</u>
Reconciliation of operating income to net cash used in operating activities				
Operating income (loss)	\$ 845,499	\$ (54,797)	\$ 790,702	\$ -
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation expense	36,377	-	36,377	-
Changes in assets and liabilities:				
Due from the Michigan Department of Community Health	(473,060)	354,040	(119,020)	-
Due from other agencies and governments	776,154	124,816	900,970	437,786
Due from other funds	23,365	(6,013)	17,352	419,579
Prepaid insurance	(3,028)	-	(3,028)	-
Operating advances to other agencies	1,490	18,924	20,414	-
Accounts payable	587,578	(305,357)	282,221	-
Accrued payroll	36,219	2,589	38,808	-
Due to the Michigan Department of Community Health	(572,298)	(1,319)	(573,617)	-
Due to other agencies and governments	4,941,489	91,067	5,032,556	-
Due to other funds	(397,166)	(187,904)	(585,070)	148,139
Unearned revenue	(1,924,487)	(44,104)	(1,968,591)	-
Net cash provided (used) by operating activities	<u>\$ 3,878,132</u>	<u>\$ (8,058)</u>	<u>\$ 3,870,074</u>	<u>\$ 1,005,504</u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Washtenaw Community Health Organization (“WCHO” or the “Organization”) is a governmental entity created pursuant to an agreement between Washtenaw County (the “County”) and the University of Michigan (the “University”), as authorized by Public Act 7 of 1967 (the “Urban Cooperation Act”), providing services generally in the areas of mental health, comprehensive substance abuse treatment, and developmental disabilities for the Washtenaw County region. The Organization’s activities are funded through federal grants, state allocations, premium revenue, county appropriations, service fees, and local gifts and grants. WCHO is governed by a 12-member board appointed by the County and the University. WCHO is not considered a component unit of any other government according to the provisions of GASB Statement No. 14.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Organization. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. WCHO does not have any governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements are provided for the Organization’s proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The operations of the Organization are accounted for in two enterprise funds (proprietary fund type) which are designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Organization reports the following major enterprise funds:

The *mental health fund* is the general operating fund of the Organization. It is used to account for all financial resources except those required to be accounted for in another fund.

The *substance abuse fund* is used to account for the operations of the Organization's substance abuse prevention and treatment services.

Additionally, the Organization reports the following fund type:

The *internal service funds* are used to account for and finance potential uninsured risks of loss related to various funds received through the Michigan Department of Community Health (MDCH).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Organization has elected not to follow subsequent private-sector guidance.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service fund are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non-operating revenues.

D. Assets, Liabilities and Equity

1. Deposits and Investments

WCHO's cash and cash equivalents consist of amounts on deposit with the Washtenaw County Treasurer.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

3. Prepayments

Payments made to vendors for services that will benefit periods beyond September 30, 2005, if any, are recorded as "prepaid items" or "other assets" in the statement of net assets.

4. Capital Assets

Capital assets are capitalized and reported in the mental health fund, net of accumulated depreciation. The government defines capital assets as assets with an initial individual cost of at least \$5,000 and an estimated useful life of at least three years. Capital assets are depreciated on the straight-line basis over the estimated useful lives of those assets, which range from five to forty years. All purchased capital assets are recorded at cost where historical records are available and at estimated historical costs where no historical records exist.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

5. *Compensated Absences*

WCHO leases all of its employees from Washtenaw County, and reimburses the County for the costs of fringe benefits provided. Accordingly, compensated absences are charged to operations when earned by employees. Any unused vacation benefits are the responsibility of the County, and are not recognized as a liability by WCHO.

6. *Unearned Revenue*

Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to a percentage of the MDCH contract amount (7.5% for Medicaid and 5% for general fund), and may be categorized as either Medicaid savings, or general fund carry-forwards.

Medicaid savings retain their character under the contract with MDCH, and may be spent in the next fiscal year in accordance with a Medicaid Reinvestment Strategy. State general funds carried over must generally be spent in the following year.

II. DETAILED NOTES ON ALL FUNDS

A. **Deposits and Investments**

While it is authorized to deposit or invest in any accounts or institutions as permitted by State statutes, WCHO has chosen to participate in Washtenaw County's investment pool, which is managed by the County Treasurer. These funds are deposited in the Treasurer's pooled accounts, and are deposited by and in the name of the County Treasurer. Other County funds are also deposited in those accounts and, as such, because of the complexities of FDIC Regulation #330.8, it is not possible to readily determine the amount of insurance that would be allocated to WCHO's deposits.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

B. Due from/to Michigan Department of Community Health

For the year ended September 30, 2005, the operations of the Organization were conducted under the terms and conditions of a managed specialty supports and services contract (the "Contract") with the Michigan Department of Community Health (MDCH). Among other provisions of this contract, the Organization has the authority to determine the nature and extent of institutional care, if any, to be provided to its clients. Thereunder, funds are advanced by the State in order for the Organization to pay for the costs of such institutional care, which is primarily procured, from certain State institutions, as well as community hospitals.

Amounts due from the MDCH at September 30, 2005, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Medicaid Managed Care Capitation	\$ 1,127,892	\$ -	\$1,127,892
Other grants passed through MDCH	<u>77,015</u>	<u>-</u>	<u>77,015</u>
	<u>\$ 1,204,907</u>	<u>\$ -</u>	<u>\$1,204,907</u>

Amounts due to the MDCH at September 30, 2005, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Institutional care services	\$ 383,175	\$ -	\$ 383,175
Cost settlement payable	<u>1,289,016</u>	<u>-</u>	<u>1,289,016</u>
	<u>\$ 1,672,191</u>	<u>\$ -</u>	<u>\$1,672,191</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

C. Due from Other Agencies and Governments

Receivables for service charges to first and third-party payors consisted of the following at September 30, 2005:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Due from:			
Other governments	\$ 76,300	\$ 5,344	\$ 81,644
Hospitals	29,679	-	29,679
Other agencies	<u>1,447,957</u>	<u>5,195</u>	<u>1,453,152</u>
	<u>\$1,553,936</u>	<u>\$ 10,539</u>	<u>\$1,564,475</u>

D. Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	<u>\$ -</u>	<u>\$ 256,219</u>	<u>\$ -</u>	<u>\$ 256,219</u>
Capital assets being depreciated:				
Buildings and improvements	36,200	711,268	-	747,468
Less accumulated depreciation for:				
Buildings and improvements	<u>-</u>	<u>36,377</u>	<u>-</u>	<u>36,377</u>
Total capital assets being depreciated, net	<u>36,200</u>	<u>674,891</u>	<u>-</u>	<u>711,091</u>
Total capital assets, net	<u>\$ 36,200</u>	<u>\$ 931,110</u>	<u>\$ -</u>	<u>\$ 967,310</u>

During the year ended September 30, 2005, WCHO recorded depreciation expense of \$36,377, which was charged entirely to the residential and supported living program.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

E. Long-term Debt

Loan Payable. During the year ended September 30, 2004, WCHO received a loan from Washtenaw County to provide funds for the acquisition and construction of residential group homes. The loan was structured as a “recoverable grant” with terms similar to a 7-year mortgage with interest at 2.735% and varying amounts of principal maturing each year. Future minimum payments on the loan are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 47,378	\$ 7,618	\$ 54,996
2007	48,691	6,305	54,996
2008	50,039	4,957	54,996
2009	51,425	3,571	54,996
2010	52,850	2,146	54,996
2011	<u>49,730</u>	<u>683</u>	<u>50,413</u>
Total	<u>\$ 300,113</u>	<u>\$ 25,280</u>	<u>\$ 325,393</u>

Following is a schedule of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loan payable	<u>\$ 346,215</u>	<u>\$ -</u>	<u>\$ 46,102</u>	<u>\$ 300,113</u>

F. Interfund Receivables and Payables

The Organization has the following interfund receivables and payables:

		<u>Due from Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Due to:				
Enterprise funds:				
Mental health	\$ -	\$ 118,235	\$ 118,235	
Substance abuse	12,918	-	12,918	
Internal Service funds:				
Mental health	<u>148,139</u>	<u>-</u>	<u>148,139</u>	
Total		<u>\$ 161,057</u>	<u>\$ 118,235</u>	<u>\$ 279,292</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

G. Risk Reserve Fund Net Assets

Net assets in the Mental Health and Substance Abuse Risk Reserve Internal Service Funds are held as reserves against future shortfalls between revenue and expenses. Management has developed, as approved by the Board, a budget goal to reach an amount sufficient to cover the estimated potential risk exposure of 5% to 10% of budgeted expenses in the Mental Health Risk Reserve.

Following is a schedule of changes in net assets of the Risk Reserve Internal Service Funds:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Mental health	\$1,404,742	\$ 37,950	\$ 148,139	\$1,294,553
Substance abuse	<u>69,819</u>	<u>1,908</u>	<u>-</u>	<u>71,727</u>
Total	<u>\$1,474,561</u>	<u>\$ 39,858</u>	<u>\$ 148,139</u>	<u>\$1,366,280</u>

Additions to the Risk Reserve Internal Service Funds were comprised of interest earnings. Reductions in the Mental Health Risk Reserve, when needed, represent transfers to the Mental Health Enterprise Fund to cover expenses in excess of Medicaid authorization from MDCH. Reductions in the Substance Abuse Risk Reserve, when needed, represent transfers to the Substance Abuse Fund of amounts held in excess of allowable reserves. There were no reductions in the current year.

Contributions to the Risk Reserve Internal Service Funds are considered eligible expenses under the MDCH contract, and accordingly are included on the Statement of Revenue, Expenses, and Changes in Fund Net Assets in the various expense categories.

III. OTHER INFORMATION

A. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Organization manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years. In addition to these coverages, the Organization has established two internal service funds to cover any potential operating shortfalls under the terms of its contract with MDCH.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

B. MDCH Revenue

The Organization provides mental health services on behalf of the Michigan Department of Community Health (MDCH) in accordance with a managed specialty supports and services contract (the “contract”). Under the contract, the Organization receives monthly capitation payments based on the number of the MDCH’s participants, regardless of services actually performed by the Organization. In addition, the MDCH makes fee-for-service payments to the Organization for certain covered services.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Related Party Transactions

As indicated previously, WCHO was created as a joint venture between Washtenaw County and the University of Michigan. As part of the agreement that created WCHO, the Organization leases its workforce from Washtenaw County. These employees were, for the most part, formerly employed by the Washtenaw County Community Mental Health Fund.

Employee compensation, including fringe benefits and retirement plans, are provided by Washtenaw County, and billed to WCHO. Leased employee costs paid to Washtenaw County amounted to \$4,664,608 for the year.

In addition, WCHO paid the County \$316,379 for central services during the year.

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**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES**

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Mental Health Enterprise Fund
For the Year Ended September 30, 2005

	Board Administration	Access and Care Management	Comprehensive Services and Support	Residential and Supported Living
Expenses				
Personnel	\$ 2,417,970	\$ 1,439,744	\$ 2,992	\$ -
State inpatient	-	-	-	-
Local inpatient	-	-	-	-
Community inpatient	-	-	-	-
Client expenses	47	1,848	392,745	-
Contracts	1,597,266	26,662	60,206,623	12,482,269
Cost allocation	304,215	-	-	-
Operations	1,186,879	38,578	4,599,128	661,846
Total expenses	\$ 5,506,377	\$ 1,506,832	\$ 65,201,488	\$ 13,144,115

Inpatient Services	Grants and Contracts	Special Projects
\$ -	\$ -	\$ -
2,476,469	-	-
304,816	-	-
2,332,604	-	-
-	-	-
-	749,209	1,066,169
-	-	-
-	-	-
\$ 5,113,889	\$ 749,209	\$ 1,066,169

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses (Concluded)
Mental Health Enterprise Fund
For the Year Ended September 30, 2005

	Physician Health Services			Total
	Health Plan Enrollments	Health Care Screening	Grants and Contracts	
Expenses				
Personnel	\$ 177,202	\$ 10,840	\$ 85,395	\$ 4,134,143
State inpatient	-	-	-	2,476,469
Local inpatient	-	-	-	304,816
Community inpatient	-	-	-	2,332,604
Client expenses	-	-	5,369	400,009
Contracts	11,485	-	257,148	76,396,831
Cost allocation	12,164	-	-	316,379
Operations	37,409	-	3,306	6,527,146
Total expenses	\$ 238,260	\$ 10,840	\$ 351,218	\$ 92,888,397

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Substance Abuse Enterprise Fund
For the Year Ended September 30, 2005

	Board			
	Administration	Access	Prevention	Treatment
Expenses				
Personnel	\$ 221,461	\$ 309,004	\$ -	\$ -
Contracts	60,836	-	-	-
Operations	77,545	12,679	1,224,749	2,512,839
Total expenses	\$ 359,842	\$ 321,683	\$ 1,224,749	\$ 2,512,839

Local Projects		Total	
\$ -		\$ 530,465	
		60,836	
1,489,274		5,317,086	
\$ 1,489,274		\$ 5,908,387	

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Combining Statement of Net Assets
Internal Service Funds
September 30, 2005

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
<hr/>			
Assets			
Cash and cash equivalents	\$ 1,442,692	\$ 71,727	\$ 1,514,419
 Liabilities			
Due to other funds	148,139	-	148,139
	<hr/>		
 Net assets			
Unrestricted	\$ 1,294,553	\$ 71,727	\$ 1,366,280
	<hr/> <hr/>		

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2005

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Operating revenue			
Charges for services	\$ -	\$ -	\$ -
Non-operating revenue			
Interest revenue	37,950	1,908	39,858
Net income before transfers	37,950	1,908	39,858
Transfers out	(148,139)	-	(148,139)
Change in net assets	(110,189)	1,908	(108,281)
Net assets, beginning of year	1,404,742	69,819	1,474,561
Net assets, end of year	<u>\$ 1,294,553</u>	<u>\$ 71,727</u>	<u>\$ 1,366,280</u>

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2005

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Cash flows from operating activities			
Cash received from customers	\$ 437,786	\$ -	\$ 437,786
Cash received from interfund payments	551,318	16,400	567,718
Net cash provided (used) by operating activities	989,104	16,400	1,005,504
Cash flows from non-capital financing activities			
Transfers in	(148,139)	-	(148,139)
Cash flows from investing activities			
Interest received	37,950	1,908	39,858
Increase in cash and cash equivalents	878,915	18,308	897,223
Cash and cash equivalents, beginning of year	563,777	53,419	617,196
Cash and cash equivalents, end of year	<u>\$ 1,442,692</u>	<u>\$ 71,727</u>	<u>\$ 1,514,419</u>
Reconciliation of operating income to net cash used in operating activities			
Operating income	\$ -	\$ -	\$ -
Adjustments to reconcile operating income to net cash used in operating activities:			
Changes in assets and liabilities:			
Due from other agencies and governments	437,786	-	437,786
Due from other funds	403,179	16,400	419,579
Due to other funds	148,139	-	148,139
Net cash used in operating activities	<u>\$ 989,104</u>	<u>\$ 16,400</u>	<u>\$ 1,005,504</u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 *an independent member of*
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 10, 2006

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Washtenaw Community Health Organization as of and for the year ended September 30, 2005, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated January 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washtenaw Community Health Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Washtenaw Community Health Organization in a separate letter dated January 10, 2006.

This report is intended solely for the information and use of the Washtenaw Community Health Organization Board, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

January 10, 2006

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

Compliance

We have audited the compliance of **Washtenaw Community Health Organization** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2005. Washtenaw Community Health Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Washtenaw Community Health Organization's management. Our responsibility is to express an opinion on Washtenaw Community Health Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washtenaw Community Health Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Washtenaw Community Health Organization's compliance with those requirements.

As described in item 2005-1 in the accompanying schedule of findings and questioned costs, Washtenaw Community Health Organization did not comply with requirements regarding allowable costs that are applicable to its Substance Abuse programs. Compliance with such requirements is necessary, in our opinion, for Washtenaw Community Health Organization to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Washtenaw Community Health Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Washtenaw Community Health Organization Board, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Washtenaw Community Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Passed through the City of Ann Arbor:		
Community Development Block Grant:		
Program Outreach Resource Team	14.218	\$ 80,250
U.S. Department of Health and Human Services		
Passed through Michigan Department of Community Health:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	124,921
Substance Abuse Prevention and Treatment Block Grant:		
SIG Grant	93.243	162,043
Medical Assistance Program - OBRA - PASSAR	93.778	352,407
Community Mental Health Services Block Grant:		
Wrap Services Initiative	93.958	50,000
Child Respite	93.958	4,762
Cognitive Impairment Training	93.958	54,227
		108,989
Substance Abuse Prevention and Treatment Block Grant:		
Prevention	93.959	1,448,294
Community Grant	93.959	404,653
		1,852,947
Passed through Washtenaw County:		
Community Access Program	93.252	111,109
Passed through the University of Michigan:		
Medical Assistance Program - Medicaid Match	93.778	134,868
Total U.S. Department of Health and Human Services		2,847,284
Total expenditures of federal awards		\$ 2,927,534

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Washtenaw Community Health Organization and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. SUBRECIPIENTS

Of the Federal expenditures presented in the schedule, Washtenaw Community Health Organization provided federal awards to subrecipients, as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Projects for Assistance in Transition From Homelessness (PATH)	93.150	\$ 124,921
Medical Assistance Program	93.778	352,407
Community Mental Health Services Block Grant	93.958	108,989
Substance Abuse Prevention and Treatment Block Grant	93.959	1,801,068

* * * * *

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
not considered to be material weaknesses? X yes none reported

Type of auditors' report issued on compliance
for major programs: Qualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? X yes no

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2005-1 Allocation of Payroll Expenditures

Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency. The Circular also requires that where employees are expected to work solely on a single federal award, charges for their salaries must be supported by at least semi-annual certifications that they worked solely on that program for the period covered by the certification.

For the year ended September 30, 2005, semi-annual certifications were not prepared for employees that worked solely on the Substance Abuse program.

No costs were questioned in the current year as a result of this finding.

SECTION IV – PRIOR YEAR FINDINGS

None.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



January 10, 2006

To the Board of Directors of the
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the financial statements of Washtenaw Community Health Organization for the year ended September 30, 2005, and have issued our report thereon dated January 10, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated December 20, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Washtenaw Community Health Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Washtenaw Community Health Organization's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Washtenaw Community Health Organization's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Washtenaw Community Health Organization's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Washtenaw Community Health Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Washtenaw Community Health Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Washtenaw Community Health Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Washtenaw Community Health Organization, either individually or in the aggregate, indicate matters that could have a significant effect on Washtenaw Community Health Organization's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Washtenaw Community Health Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Washtenaw Community Health Organization, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Washtenaw Community Health Organization

Comments and Recommendations

For the Year Ended September 30, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated January 10, 2006 on the financial statements of Washtenaw Community Health Organization.

State and Local In-Patient Amounts Due to the Department of Community Health

As was noted in connection with the 2004 audit, the liabilities recorded for amounts due to MDCH for state and local in-patient services at September 30, 2005 included various balances dating back several years. WCHO's internal policy is to review and reverse accruals not invoiced within three years of the date of service. During the fiscal year ending September 30, 2005, this process was completed for local in-patient services; however, State in-patient liabilities have not been adjusted as the State reserves the right to collect the balances indefinitely.

Regardless of the State's ability to collect, we recommend that WCHO evaluate the State in-patient liabilities to provide an estimate of amounts likely to be paid and adjust liability balances accordingly.

Medicaid Accounts Receivable

In the prior year, management was not able to produce a subsidiary ledger of accounts receivable by individual to reconcile the billing system (Encompass) with the general ledger. In 2005, management, in coordination with the software vendor, was able to generate these reports. However, a significant manual reconciliation process was still necessary. We recommend that management continue to coordinate with its software provider to ensure that an accurate accounts receivable subsidiary ledger can be easily produced that directly agrees to the general ledger at any given time.

* * * * *